

# THE REASONS FOR SHORTAGES IN HOUSING IN LIBYA

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**ABSTRACT:** Since the oil has been discovered and exported in the beginning of 1960s, Libya took more care of housing sector. In the 1970s housing sector saw a wide boom, even the supply of houses became more than the demand in this period. But in the beginning of 1980s housing crisis appeared in Libya and continued until this time.

There are numerous reasons behind the housing shortage, some of them are internal, and others are external. The internal reasons comprise; great targets had adopted while the authority could not achieve them, the unstable administrative system, low experience levels of local companies, decreased financial resources and the general targets were vacillated. On the other hand, the external reasons can be summarized in; the UN and USA sanction which led to a decrease in oil export revenues, which resulted in financial resources decrease, and foreign companies boycott of Libya.

This paper is an attempt to spotlight on the reasons of shortage in housing in Libya, and it is a part of PhD study entitled "How Attract FDI to Invest in Housing in Libya"

**Key words:** Housing, Libya, Reasons, Shortage.

## 1 INTRODUCTION

Researchers in the housing sector in the Libyan economy know well the fact that despite the lack in the number of houses before 1970s, housing shortage problem was not appearing. In the early 1970s the housing sector has seen a great boom after oil has been discovered and exported in the beginning of the 1960s, so the poverty ghost disappeared from the Libyan economy. Indeed, both of public sector and private sector condensed their forces in huge participation to built hundreds of thousands of housing units.

Libya after its independence until 1961 was one of the poorest countries in the world, and it accepted aid from foreign countries and organisations. Then Libya became one of the wealthiest countries as a result of huge oil exports revenues. This prosperity enabled the country to put and implement development plans. Housing sector acquired considerable care especially after September 1969 revolution; while the revolutionaries tried to gain public support when they tried to solve the problems that touched people's life directly.

Most of the development plans give a special care to the housing sector; where by criticism arose to planners because of their ambitious targets which they could not achieve them in many occasions. According to statistical numbers which was published in a bulletin of General People's Committee of Planning, Economic and Trade in 1997, the amount which allocated to housing sector in the development plans in the period 1962 – 1969 was 109.3 million Libyan pounds ( Libyan currency changed from pounds to Libyan dinars after the revolution), while the real expenditure in housing sector in the same period was 165.8 with a percentage of actual to allocated funds was 151.6%, the bulletin illustrate the allocated amount to housing sector in development plans in the phase 1970 - 1996 was 3686.6 million LD, the actual expenditure was 3009.6 million LD, with a percentage of 81.6%.

Previous data manifest the actual expenditure ratio in the development plans to allocated amount in 1962 -1969 higher than that one in 1970 -1996 despite of the amount was less in the first period.

## 2 VERIFICATION OF HOUSING SHORTAGE EXISTANCE

When you survey the related data to the housing it will be noted that the shortage appeared twice; the first in the 1960s in particular in the end of this period, whereas the shortage in 1969 was 185000 units 120000 of them were unsuitable for residence and needed to be replaced with new dwellings (General Council for Planning, 2002:7). The second shortage appeared in the beginning of the 1980s which will be the focus of this paper.

The shortage which still affects the society till this time, according to table (1) appeared since 1982 when the effects of law No: 4 for year 1978 appeared to form a problem, where the housing supply were less than the demand.

*Table 1. Demand and supply amounts from housing units 1973 – 1995*

Year	Supply of residential units	Demand of residential units	Difference
1973	404317	387043	17274
1974	414767	405448	9319
1975	426682	417206	9476
1976	433582	429305	4277
1977	447130	441755	5375
1978	464065	454566	9499
1979	476815	467749	9066
1980	489565	481314	8251
1981	498890	495272	3618
1982	504790	509634	-4844
1983	510128	524414	-14286
1984	515465	554174	-38709

Year	Supply of residential units	Demand of residential units	Difference
1985	543512	557136	-13624
1986	548412	573293	-24881
1987	553312	589919	-36607
1988	563708	607027	-43319
1989	582423	624630	-42207
1990	600412	642745	-42333
1991	603964	661385	-57421
1992	609467	680566	-71099
1993	640550	700302	-59752
1994	673218	720611	-47393
1995	708188	727523	-19335

Source: Shamiah A. & Kaebah M 1996, population growth and its impact on the housing market in the Libya economy.

As shown in the previous table, despite in the period from 1973 to 1981, the abundance in housing decreased yearly, where the surplus was 17274 units in 1973 became 3618 units in 1981. Also it can be noted the shortage trend increased rapidly from 1982 to 1995 except some years. The shortage reached the peak in 1992 where the shortage was 71099 units. In spite of several attempts from the authorities to rein in the shortage, but it still continued.

Housing in Libya is classified to sixteen kinds as in table (2), public housing come in the fist grade with a percentage of 25% of executed dwellings in the period 1970 – 1996, then houses by loans and mortgages from commercial banks and co-operatives are in the second grade with 21.2% from total executed dwellings, private financial houses come next with 21% of executed units, after that houses by loans from Saving and Real Estate investment Bank with 16.5%, the rest together constitute about 17%.

However, inasmuch the government possess the lion share in commercial banks, it can be said that the government sustained the large burden of the housing sector directly by building houses and allocating them, or indirectly by steering commercial

banks to give loans for residential purposes, by that the government's participation was about 62.7% of executed houses in this period.

*Table 2. Number of Completed dwelling units 1970 – 1996*

Kind of Residence	Number of executed units	%
1- Public Housing	95567	25
2- Agriculture housing	13827	3.6
3- General public projects houses	3521	0.9
4- New cities and villages	6319	1.6
5- Residential city Albriga	3056	0.8
6- Residential city Ras-lanof	1510	0.4
7- Administrative centre houses Sert and aljefrah	4198	1.4
8- Houses of middle area valleys	531	0.1
9- Saving and Real Estate investment Bank houses	2737	0.7
10- Houses of national secretariat of residential investment	8500	2.2
11- Social assurance housing	8980	2.3
12- Housing of Libya insurance company	1335	0.3
13- Housing of national investments company	7776	2.0
14-Houses by loans from Saving and Real Estate investment Bank	63250	16.5
15- Houses by loans from commercial banks & co-operative	81194	21.2
16- Private financial houses	80329	21.0
Total	382450	100

Source: General Secretariat of Planning, Economic and commerce, Executed of national economy during twenty seven years, 1996.

As it can be noted, that private investment companies in housing sector were absent because of the establishment of some legislations which prevent leasing when the country adopted the socialism ideology, as a result of this legislations which led to the investors withdrawing from the housing sector.

### **3 REASONS OF THE SHORTAGE**

Libya has faced difficult circumstances in the last three decades which caused many economic and social problems; the housing crisis is linked to these problems. There are a number of reasons behind this shortage in housing, some of them internal and others are external;

#### **3.1 Internal Reasons:**

These reasons comprise the following;

##### **3.1.1 Adopting Overambitious Targets**

As a result of abundant oil revenues, Libya was released from its debts and started to be self sufficient, so it became able to start developmental projects in various economic fields. Thereby an enormous amount of money has been allocated for development plans in particular in the housing sector. Table (3) illustrates the allocated amounts compared with actual expenditure amounts in these development plans in the housing sector in the period 1970 - 1996.

*Table 3. Allotted amount and Actual expenditure in development plans in housing sector in the period 1970 - 1996*

year	Allotted amount (AA)	Actual expenditure (AE)	% AE to AA
1970	32.8	37.5	114.3%
1971	39.9	39.4	98.7%
1972	72.9	72.2	99.0%
1973	76.9	60.9	79.1%
1974	148.2	146.9	99.1%
1975	142.7	128.3	89.9%
1976	150.5	138.3	91.8%
1977	185.0	175.1	94.6%
1978	231.0	152.7	66.1%
1979	166.0	167.8	101.0%
1980	231.7	224.0	96.6%
1981	288.2	294.6	102.2%
1982	245.6	237.0	96.4%
1983	217.6	221.3	101.7%
1984	208.2	184.0	88.3%
1985	168.6	143.6	85.1%
1986	167.5	126.6	75.5%
1987	142.0	58.8	41.4%
1988	138.8	77.3	55.6%
1989	91.8	97.6	106.3%
1990	100.0	86.9	86.9%
1991	289.7	49.8	17.1%
1992	70.0	19.1	27.2%
1993	==	==	==
1994	70.0	12.6	18.0%
1995	3.0	14.7	490%
1996	8.0	42.6	532.5%

Source: General People's Secretariat of Planning, Economic and commerce (1997),  
The National Accounts 1980 – 1996 , PP 21 – 28.

One can recognise that there was a rapid increase in the allocated amount in development plans in the housing sector in the period 1970 - 1981, in addition to that the actual expenditure was more than the allocated amount in some years for example actual expenditure ratio to allocated amount was 114.3% in 1970 and 102.2% in 1981.

Allocated amounts for the housing development plans started decreasing from 1982 when Libya cut back expenditure after the USA sanctions in 1982 because of the Lockerbie incident, whereas allocated amounts decreased to arrive at 9.8 million Libyan Dinars in 1989, as well the actual expenditure dropped, for instance it was 41.4% in 1987. After that the decreasing in allocated amounts for housing has continued where 70 million Libyan Dinars was fixed in 1994, and the real expenditure percentage was 18%, then a decrease happened sharply in 1995 and 1996 where the allocated funds were only 3 million LD and 8 million LD on respectively .

Since year 1982 the actual expenditure started decline irregularly. Where, the actual expenditure ratio dropped to 17.1% in 1991 and 18% in 1994, this decrease in actual expenditure verify that the housing projects in development plans need to be prearranged more than the authorities financial ability.

### 3.1.2 Administrative System Instability

From the 2nd of March 1977 Libya adopted a socialism regime, which resulted in a lot of changes in the Libyan government administration. Both high level (decisions makers) and low level (decisions implementers) has been changed several times often in convergent periods. Merging some of General Peoples' Committees (ministries) some times, even the abolishment in other times. According to the new regime the General Peoples' Committee for housing has been established on 2nd March 1977, subsequently it merged with the General Peoples' Committee for Utilities named the General Peoples' Committee for Housing and Utilities on 3rd March 1982. Next change was the abolishment of the General Peoples' Committee for Housing on 7th October 1990, then the General Peoples' Committee for Housing has established again on 29th January 1996, once again General Peoples' Committee for Housing was abolished and it became a subordinate of the Assistant Secretary for Services Affairs - General Peoples' Committee 2001, then became independent administration headed by the General Auditor which is a subordinate of the General Peoples' Committee in 2002 (General Peoples' Committee, 2005). On the other hand, changes in low levels are more rapid than high levels some times where change happens every year or less.

The merger and separation of provinces (administrative districts) was one of significant causes which resulted in administrative instability, as a result of this instability the national and local public housing projects contracts were confused, in the same time contractors could not carryout their commitments and were undermined in their rights, which made them unable to accomplishment their contractual commitments. Administrative instability has been considered one of most significant causes which led to the decline in development levels in the Libyan economy (Al-Megharbi, M, 1993)

### 3.1.3 Population Increasing

After the oil heyday, Libya population has seen high growth level, whereas it reached 4.3% in 1972 (Lahmeyer, 2003). As in Figure (1) the families' numbers rose from 387043 families in 1973 to 727523 families in 1995 (Shamiah A. & Kaebah M, 1996), however numerous people postponed their marriage plans until acquiring a house. This increase in families' number resulted in the increase of housing demand, where the housing supply did not accompany demand.

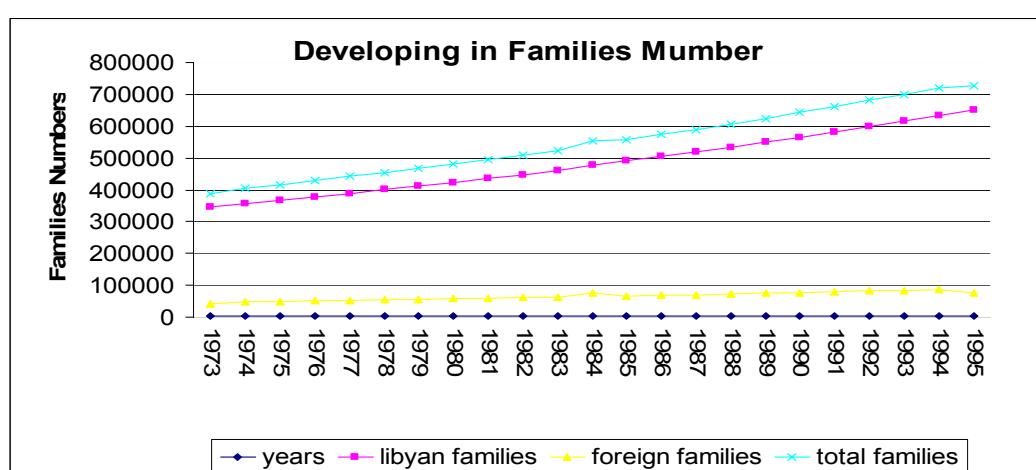


Figure (1) Developing in families' number during 1973 -1995

### **3.1.4 Local Contractors' Experience Inadequacy**

According to the policy trend of contracting local national contractors in executing and sometimes investing in the Libyan housing sector it became apparent that most of the local contractors suffered experience weaknesses in executing large scale housing projects. As a result of the deterioration of the contracting apparatus and in spite of attempts to re-organisation many times it became even harder to satisfy the stringent demand in this sector. Absence of local qualified manpower and skilled labour in the construction sector led to near total dependence on foreign companies and labour (General Council of Planning, 2002). The most significant cause for the decline of implementation levels is that the government did not complete its contractual commitment with contractors in augments about hard currency payments, and delays in payments instalments (General Board for Housing, 2003).

### **3.1.5 Establishment Legislations That Prevent Leasing**

When Libya adopted the socialism regime which prevented the ownership for leasing purposes "...*No one has the right to build a house, additional to his own and that of his heirs, for the purpose of renting it, because the house represents another person's need, and building it for the purpose of rent is an attempt to have ..*" (Muammar Al Qathafi, 1975:16), consequence legislation that prevents leasing has been established. One of most important laws is Act no: 4 for year 1978 which prevented leases. As a result of these laws which prevent activities for profit purposes and stopped housing rent and prevented the private sector to build houses for leases purposes.

### **3.1.6 Decrease in Financial Resources**

To finance the housing sector three ways has been adopted in Libya; first of all financing by government, where it was part of the planning budgets allocated especially in the early years because of ample oil revenue and government's desire to reform the internal situations. Because of oil price drop from \$35.69/barrel in 1981 to \$11.21/barrel in 1998 (BP, 2005), in addition to other political issues which caused the decline in exported oil quantities and therefore revenues. This affected development budget negatively, and led to decrease the financing ability. Next kind of financing, was by loaning and mortgages from commercial banks but it suffered procedures complication and restricted laws, where it became inefficient. Third direction was dependent on individuals savings in the society, however, the majority of public employees' monthly income are low, where 95.7% of them gain less than 500 LD, and 85% less than 300 LD (General Board of Information, 2002:51), this low levels of income are not enough to get essential goods for the majority in comparison with incomes levels in the UK where £ 1 = 2.367 LD (Central bank of Libya, 2005).

### **3.1.7 Vacillating Public Targets**

The crucial feature in the beginning of the period 1970 - 1995 was the government's total service provision to all people, these services included housing. Therefore, huge amount of development budgets has been allocated to the housing sector. As a result

of economic and political events in the first half of 1980s which led to the decrease in devoted amounts for the housing sector as previously mentioned, which resulted in changing targets and priorities.

From another angle, the political problems that Libya had been involved in, led to the expenditure of resounding amounts of money to rectify old mistakes (Libya paid \$2.7 Billion for the USA and UK to resolve the Lockerbie issue.)

### **3.1.8 Lack of Adequacy in Urban Planning**

According to a study on housing policies prepared by the General Council for Planning No: (23) for year 2002, that pointed to the shortage causes in housing was the lack of contemporary urban planning. Whereas the current plans end in year 2000 (General Council for Planning, 2002), yet, the exerted efforts to prepare new urban plans still suffered a lot of complications, hence, the lands' prices increased rapidly and sharply.

### **3.1.9 Changing in the Residential Behaviour of the population**

The period before oil discovered in the end of 1950s, most of Libyans dwell in cottages and tents in steppes, the period 1960 - 1970 people started moving to live in cities looking for better jobs as a result of the oil boom. This period was characterised by the appearance of inhabitant gatherings in cities outskirts. And most houses were occupied by more than two families in most times as cited by census of 1964, also most families were in rented dwellings. Since 1970, housing behaviour for inhabitants changed while the families stop sharing houses as result of housing sector boom, and Libyans were affected by new cultures and trends, as a result of this consumption behaviour effects, housing changed, this led to the increase in demand on housing, this increase through time brought about shortage in housing which was not accompanied by supply.

## **3.2 External Reasons**

These reasons could be divided into;

### **3.2.1 Economic Sanction Effects**

Libya has faced sanctions because of political issues; the USA hurried to impose sanctions on Libya in 1982, and continues, despite attempts of US business groups, led by oil companies that hold concessions in Libya to persuade the administration of President George W. Bush to ease a trade ban that was imposed on Libya in 1986. Thereupon the UN Security Council imposed sanctions on Libya in 1992 to press Tripoli to hand over two suspects wanted for the 1988 bombing of a US Pan American Airways airliner over Lockerbie, Scotland. These sanctions put Libya in hard circumstances, and this led to economic shrinkage in all economy sectors and development receding. This harmful economic situation affected the housing sector, similar to the rest of economy.

### **3.2.2 Foreign Companies Boycott**

Many foreign companies boycotted Libya, obedience to the UN decision No: 748 for year 1992 and decision No: 883 for year 1993 which put Libya under sanctions. Departure of these companies led to stops and delays in many projects whereby the housing sector has been affected. Lack of hard currency and payment delays also led to the withdrawal of many other multinational companies; as a result completion dates were delayed extensively (Benkrima 2001 and El-hasia 2005). For instance according to decision of Secretary of General People's Committee of Housing and Utilities No: 191 for year 2000, seventeen companies withdrew from housing projects by mutual agreement most of them Turkish companies (General Board for Housing, 2003: 43-46).

### **3.2.3 Decrease in Oil Revenues**

The effects of decrease of oil revenues started appearing after the USA administration imposed sanctions on Libya in 1982, thereby, coerced US companies to stop dealing with the Libyan oil sector in particular. As a consequence, the cost of production in oil sector increased and oil revenues declined (Alavi, 2003). The UN decisions in early of 1990s made the situation worse, additionally oil prices fluctuation participated creating instability in the economy and made development plans establishment more difficult. Based upon the disturbances that dominated the oil sector which affected all economy sectors including the housing sector, devoted funds for the housing sector has decreased.

## **4 CONCLUSION**

This paper discussed the main reasons of the shortage in the Libyan housing sector by reviewing the official data and government perception of the problem. This was accompanied by the author's analysis of the facts and probable effects in a general fashion.

Both internal and external reasons interrelation and effect on each other in many times, played a role in the shortage in the housing sector indirectly, as it has mentioned above the external reasons played crucial role where the sanction led to harmful effects affected the oil sector which consider leader sector in Libyan economy, one can not ignore as well the importance of foreign companies boycotted Libya, which led to stopping housing projects. the internal causes played more significant role, whereas adopting overambitious targets without consider to the local capability led to confuse development plans, the administrative system instability was a cause of confusing the implementation of housing projects as well, and establishment legislations that prevent leasing played significant role which made the private sector escape from housing sector. However, the internal issues could be resolved internally, because the decision is between the authorities' hands, but decisions were taken without the sufficient studying. Because of administrative instability which affects the other reasons by various shapes, most of internal reasons were related to administrative instability and weakness in planning.

This kind of work is paramount, because it considers first steps to treat the shortage problem in the housing, by quantifying the size of the problem and

attempting to present credible causes, whereby one could not give right prescriptions if causes of problem are not explicit.

Finally it is important to recognise that in order to tackle this problem head-on, internal and external efforts should be integrated to overtake this deteriorated situation. This paper will be part of a PhD research entitled, "How to Attract FDI to Invest in Housing in Libya?"

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